

**REPORT OF THE AUDIT OF THE
LAWRENCE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LAWRENCE COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Lawrence County Fiscal Court for fiscal year ended June 30, 2010.

We have issued unqualified opinions, based on our audit, on the governmental activities, each major fund, and aggregate remaining fund information financial statements of Lawrence County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$17,822,081 as of June 30, 2010. The fiscal court had unrestricted net assets of \$678,179 in its governmental activities as of June 30, 2010. The fiscal court had total debt principal as of June 30, 2010 of \$1,258,390 with \$88,019 due within the next year.

Report Comment:

2010-01 The Fiscal Court Should Improve Internal Control Procedures

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable David Compton, Former Lawrence County Judge/Executive

Honorable John Osborne, Lawrence County Judge/Executive

Members of the Lawrence County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lawrence County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lawrence County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Lawrence County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lawrence County, Kentucky, as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lawrence County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 9, 2011 on our consideration of Lawrence County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment:

2010-01 The Fiscal Court Should Improve Internal Control Procedures

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized flourish at the end.

Crit Luallen
Auditor of Public Accounts

May 9, 2011

LAWRENCE COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

David Compton	County Judge/Executive
Homer Fannin	Magistrate
Lowell Scott Cyrus	Magistrate
Earl Boggs, Jr.	Magistrate
Terry York	Magistrate

Other Elected Officials:

Michael T. Hogan	County Attorney
Phillip Triplett	Jailer
Chris Jobe	County Clerk
Jodi Parsley	Circuit Court Clerk
Garrett Roberts	Sheriff
Chris Rose	Property Valuation Administrator
Michael Wilson	Coroner

Appointed Personnel:

Sabrina Cantrell	County Treasurer
Michelle Miller	Finance Officer
Eddie Michael	Deputy County Judge/Executive

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LAWRENCE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

LAWRENCE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 678,179
Total Current Assets	<u>678,179</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	2,139,000
Buildings	4,151,640
Furniture and Equipment	77,011
Vehicles and Equipment	822,662
Infrastructure	11,211,979
Total Noncurrent Assets	<u>18,402,292</u>
Total Assets	<u>19,080,471</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations Payable	88,019
Total Current Liabilities	<u>88,019</u>
Noncurrent Liabilities:	
Financing Obligations Payable	1,170,371
Total Noncurrent Liabilities	<u>1,170,371</u>
Total Liabilities	<u>1,258,390</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	17,143,902
Unrestricted	678,179
Total Net Assets	<u>\$ 17,822,081</u>

The accompanying notes are an integral part of the financial statements.

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LAWRENCE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

LAWRENCE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,081,843	\$ 249,852	\$ 264,199	\$
Protection to Persons and Property	777,665	20,536	195,060	104,617
General Health and Sanitation	130,637	95,947	35,377	163,329
Social Services	19,718			
Recreation and Culture	104,283			472,810
Roads	2,282,280		1,404,953	1,167,326
Debt Service	46,333			
Capital Projects	513,752			
Total Governmental Activities	<u>5,956,511</u>	<u>366,335</u>	<u>1,899,589</u>	<u>1,908,082</u>

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

LAWRENCE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses) Revenues and
Changes in Net Assets
Primary Government

Governmental
Activities

\$	(1,567,792)
	(457,452)
	164,016
	(19,718)
	368,527
	289,999
	(46,333)
	(513,752)
	<u>(1,782,505)</u>

	661,196
	4,188
	119,118
	705,638
	70,305
	37,509
	6,170
	<u>1,604,124</u>
	(178,381)
	<u>18,000,462</u>
\$	<u>17,822,081</u>

The accompanying notes are an integral part of the financial statements.

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LAWRENCE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

LAWRENCE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	Local Government Economic Assistance Fund	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 438,033	\$ 40,900	\$ 121,979	\$ 77,267	\$ 678,179
Total Assets	<u>438,033</u>	<u>40,900</u>	<u>121,979</u>	<u>77,267</u>	<u>678,179</u>
FUND BALANCES					
Reserved for:					
Encumbrances	17,317	12,252	6,129	774	36,472
Unreserved:					
General Fund	420,716				420,716
Special Revenue Funds		28,648	115,850	76,493	220,991
Total Fund Balances	<u>\$ 438,033</u>	<u>\$ 40,900</u>	<u>\$ 121,979</u>	<u>\$ 77,267</u>	<u>\$ 678,179</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 678,179
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	29,524,324
Accumulated Depreciation	(11,122,032)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	<u>(1,258,390)</u>
Net Assets Of Governmental Activities	<u>\$ 17,822,081</u>

The accompanying notes are an integral part of the financial statements.

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LAWRENCE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

LAWRENCE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	General Fund	Road Fund	Local Government Economic Assistance Fund	Non- Major Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,067,116	\$	\$	\$ 150,689	\$ 1,217,805
In Lieu Tax Payments	272,415				272,415
Excess Fees	70,305				70,305
Licenses and Permits	31,536				31,536
Intergovernmental	1,046,501	1,579,301	991,771	193,975	3,811,548
Charges for Services	4,015			89,116	93,131
Miscellaneous	257,344	15,439	2,413	25	275,221
Interest	2,542	1,570	1,564	493	6,169
Total Revenues	<u>2,751,774</u>	<u>1,596,310</u>	<u>995,748</u>	<u>434,298</u>	<u>5,778,130</u>
EXPENDITURES					
Current:					
General Government	1,034,408	11,113	38,225		1,083,746
Protection to Persons and Property	139,671		49,280	611,485	800,436
General Health and Sanitation	97,794		30,532		128,326
Social Services	18,468		1,250		19,718
Recreation and Culture	156,307				156,307
Roads		1,591,863	596,423		2,188,286
Debt Service	75,330			53,257	128,587
Capital Projects	620,322		53,324	31,846	705,492
Administration	573,493	227,025	20,720	80,159	901,397
Total Expenditures	<u>2,715,793</u>	<u>1,830,001</u>	<u>789,754</u>	<u>776,747</u>	<u>6,112,295</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>35,981</u>	<u>(233,691)</u>	<u>205,994</u>	<u>(342,449)</u>	<u>(334,165)</u>
Other Financing Sources (Uses)					
Transfers From Other Funds	250,000	(200,000)	54,000	356,300	460,300
Transfers To Other Funds	(250,000)	200,000	(406,300)	(4,000)	(460,300)
Total Other Financing Sources (Uses)	<u></u>	<u></u>	<u>(352,300)</u>	<u>352,300</u>	<u></u>
Net Change in Fund Balances	35,981	(233,691)	(146,306)	9,851	(334,165)
Fund Balances - Beginning (Restated)	402,052	274,591	268,285	67,416	1,012,344
Fund Balances - Ending	<u>\$ 438,033</u>	<u>\$ 40,900</u>	<u>\$ 121,979</u>	<u>\$ 77,267</u>	<u>\$ 678,179</u>

The accompanying notes are an integral part of the financial statements.

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**LAWRENCE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

**LAWRENCE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ (334,165)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	1,067,244
Depreciation Expense	(993,714)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Bond Payments	82,254
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Change in Net Assets of Governmental Activities	\$ (178,381)
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TO THE FINANCIAL STATEMENTS**

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LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Lawrence County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Based upon the application of GASB 14, there are no component units which merit consideration as part of the reporting entity.

C. Lawrence County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Lawrence County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Lawrence County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Special Revenue Funds:

The Jail Fund, Forestry Fund, Sewer Fund, and the 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	\$ 25,000	10-75
Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-5
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Jointly Governed Organization

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is disclosed as an organization jointly governed by the Kentucky counties of Boyd, Carter, Elliott, Greenup and Lawrence.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government’s deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 2,139,000	\$	\$	\$ 2,139,000
Total Capital Assets Not Being Depreciated	2,139,000			2,139,000
Capital Assets, Being Depreciated:				
Buildings	5,473,154	269,462		5,742,616
Other Equipment	134,963	12,420		147,383
Vehicles and Equipment	1,831,947	214,415		2,046,362
Infrastructure	18,878,016	570,947		19,448,963
Total Capital Assets Being Depreciated	26,318,080	1,067,244		27,385,324
Less Accumulated Depreciation For:				
Buildings	(1,472,862)	(118,114)		(1,590,976)
Other Equipment	(56,906)	(13,466)		(70,372)
Vehicles and Equipment	(1,133,872)	(89,828)		(1,223,700)
Infrastructure	(7,464,678)	(772,306)		(8,236,984)
Total Accumulated Depreciation	(10,128,318)	(993,714)		(11,122,032)
Total Capital Assets, Being Depreciated, Net	16,189,762	73,530		16,263,292
Governmental Activities Capital Assets, Net	<u>\$ 18,328,762</u>	<u>\$ 73,530</u>	<u>\$ 0</u>	<u>\$ 18,402,292</u>
<u>Governmental Activities:</u>				
General Government			\$ 96,700	
Protection to Persons and Property			13,689	
General Health and Sanitation			2,311	
Recreation and Culture			25,698	
Roads, Including Depreciation of General Infrastructure Assets			<u>855,316</u>	
Total Depreciation Expense - Governmental Activities			\$ 993,714	

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt

A. Kentucky Infrastructure Authority

On November 1, 1998, the Lawrence County Fiscal Court entered into an Assistance Agreement in the amount of \$868,219 with the Kentucky Infrastructure Authority for the construction of sewer lines. Terms of the agreement require principal and interest payments on June 1 and December 1 of each year. Principal and interest payments began December 1, 2001, one year from the completion date of the original sewer project, and continue through 2021. During fiscal year 2002, the county received an extension on the project and secured an additional \$157,367 in funds. The payment dates and number of payments to satisfy this liability did not change. The amount of each payment changed to accommodate additional principal due. The principal outstanding as of June 30, 2010 was \$518,390. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 43,019	\$ 10,154
2012	43,796	9,289
2013	44,588	8,409
2014	45,394	7,514
2015	46,215	6,602
2016-2020	243,917	18,742
2021	51,461	773
Totals	<u>\$ 518,390</u>	<u>\$ 61,483</u>

B. Community Center Building

On December 5, 2002, the Lawrence County Fiscal Court entered into a financing agreement with the Kentucky Area Development District leasing trust program for construction of a community center building. The principal amount of the agreement was \$1,004,000. The agreement requires two annual payments on November 20 and May 20 of each year for 20 years starting November 20, 2003 to be paid in full November 20, 2022. The principal outstanding as of June 30, 2010 was \$740,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 45,000	\$ 33,757
2012	45,000	32,025
2013	45,000	30,225
2014	50,000	28,200
2015	50,000	25,950
2016-2020	295,000	89,975
2021-2022	210,000	6,250
Totals	<u>\$ 740,000</u>	<u>\$ 246,382</u>

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

C. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	1,340,644		82,254	1,258,390	88,019
Governmental Activities					
Long-term Liabilities	<u>\$ 1,340,644</u>	<u>\$ 0</u>	<u>\$ 82,254</u>	<u>\$ 1,258,390</u>	<u>\$ 88,019</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$45,232 in interest on financing obligations.

Note 6. Industrial Revenue Bonds

On March 1, 2000, Lawrence County Fiscal Court issued a single bond (Series 2000A) in the amount of \$3,000,000 to assist in the financing, acquisition, construction, equipping, and installation of an industrial building, which will be used as a power plant (the project). Pursuant to the bond indenture, Lawrence County Fiscal Court sold the bond to Lawrence County Riverside Trust 2000. The single bond has a maturity of March 9, 2025, with a fixed interest rate of 7% per annum payable each December 30, commencing December 30, 2001. The entire principal is payable at the maturity of the bond.

On March 10, 2000, Lawrence County Fiscal Court entered into a lease agreement with Gene A. Wilson and Pauletta M. Wilson (lessees) in which the lessees promise specified rents, which will be sufficient to offset the principal and interest of the bond in order to satisfy the interest and principal requirements of the bond. Under terms of the lease, the lessees subleased the project to Lawrence County Riverside Trust 2000 (purchaser of the bond). Lawrence County Riverside Trust 2000 will be responsible for developing the project. Subsequently, Lawrence County Riverside Trust 2000 has merged into Riverside Generating Company, LLC and ownership of the bond now lies with Riverside Generating Company, LLC.

Industrial Revenue Bonds are not county debt because revenue from the project will be used to satisfy the bonds, and therefore, this bond is not included in Lawrence County Fiscal Court's financial statements.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to be allocated as follows: 5% will go to the member's account and 1% will go to the Kentucky Retirement System insurance fund. The county's contribution rate for nonhazardous employees was 16.16 percent.

The county's contribution for FY 2008 was \$279,289, FY 2009 was \$257,329, and FY 2010 was \$305,286.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

On February 24, 2000, the Lawrence County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2010, Lawrence County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Related Party Transactions

The county had the following related party transactions. A brother-in-law of the County Treasurer performed contract work for the county. This work included: 1) Courthouse repairs \$9,989, 2) Community Center building repairs \$8,947, 3) Courthouse annex repairs \$10,373, 4) Industrial Park building repairs \$1,600, and 5) Lawrence County Park repairs \$8,872. A total of \$39,781 was paid to the brother-in-law of the County Treasurer.

Note 11. Prior Period Adjustments

Prior period adjustments have been made to the Primary Government's Statement of Activities, Net Assets. We have increased the Net Assets-Beginning Balance in the amount of \$1,297 due to prior year voided checks.

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,058,342	\$ 1,066,097	\$ 1,067,116	\$ 1,019
In Lieu Tax Payments	201,316	288,915	272,415	(16,500)
Excess Fees	14,003	70,305	70,305	
Licenses and Permits	26,300	26,300	31,536	5,236
Intergovernmental Revenue	1,030,190	1,279,714	1,046,501	(233,213)
Charges for Services	3,000	5,615	4,015	(1,600)
Miscellaneous	257,922	274,852	257,344	(17,508)
Interest	2,600	2,600	2,542	(58)
Total Revenues	<u>2,593,673</u>	<u>3,014,398</u>	<u>2,751,774</u>	<u>(262,624)</u>
EXPENDITURES				
General Government	952,920	1,121,243	1,034,408	86,835
Protection to Persons and Property	114,063	145,355	139,671	5,684
General Health and Sanitation	67,184	99,144	97,794	1,350
Social Services	12,200	23,588	18,468	5,120
Recreation and Culture	94,500	163,020	156,307	6,713
Debt Service	75,330	75,330	75,330	
Capital Projects	826,500	938,581	620,322	318,259
Administration	568,988	848,892	573,493	275,399
Total Expenditures	<u>2,711,685</u>	<u>3,415,153</u>	<u>2,715,793</u>	<u>699,360</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(118,012)</u>	<u>(400,755)</u>	<u>35,981</u>	<u>436,736</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			250,000	250,000
Transfers To Other Funds			(250,000)	(250,000)
Total Other Financing Sources (Uses)				
Net Changes in Fund Balance	(118,012)	(400,755)	35,981	436,736
Fund Balance - Beginning	<u>118,012</u>	<u>400,755</u>	<u>402,052</u>	<u>1,297</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 438,033</u>	<u>\$ 438,033</u>

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,197,211	\$ 1,622,386	\$ 1,579,301	\$ (43,085)
Miscellaneous	9,700	11,614	15,439	3,825
Interest	2,200	2,200	1,570	(630)
Total Revenues	1,209,111	1,636,200	1,596,310	(39,890)
EXPENDITURES				
General Government	12,371	12,399	11,113	1,286
Roads	1,040,084	1,662,833	1,591,863	70,970
Administration	239,272	235,560	227,025	8,535
Total Expenditures	1,291,727	1,910,792	1,830,001	80,791
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(82,616)	(274,592)	(233,691)	40,901
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			200,000	200,000
Transfers To Other Funds			(200,000)	(200,000)
Total Other Financing Sources (Uses)				
Net Changes in Fund Balance	(82,616)	(274,592)	(233,691)	40,901
Fund Balance - Beginning	82,616	274,592	274,591	(1)
Fund Balance - Ending	\$ 0	\$ 0	\$ 40,900	\$ 40,900

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,066,102	\$ 1,073,459	\$ 991,771	\$ (81,688)
Miscellaneous		2,413	2,413	
Interest	2,700	2,700	1,564	(1,136)
Total Revenues	1,068,802	1,078,572	995,748	(82,824)
EXPENDITURES				
General Government	36,301	38,746	38,225	521
Protection to Persons and Property		51,895	49,280	2,615
General Health and Sanitation	39,036	39,085	30,532	8,553
Social Services	2,000	4,000	1,250	2,750
Recreation and Culture	20,000	20,000		20,000
Roads	694,965	720,572	596,423	124,149
Capital Projects	55,709	63,066	53,324	9,742
Administration	20,343	57,193	20,720	36,473
Total Expenditures	868,354	994,557	789,754	204,803
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	200,448	84,015	205,994	121,979
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			54,000	54,000
Transfers To Other Funds	(306,448)	(352,300)	(406,300)	(54,000)
Total Other Financing Sources (Uses)	(306,448)	(352,300)	(352,300)	
Net Changes in Fund Balances	(106,000)	(268,285)	(146,306)	121,979
Fund Balances - Beginning	106,000	268,285	268,285	
Fund Balances - Ending	\$ 0	\$ 0	\$ 121,979	\$ 121,979

LAWRENCE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

LAWRENCE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

LAWRENCE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

	Jail Fund	Forestry Fund	Sewer Fund	911 Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 973	\$ 45,995	\$ 8,512	\$ 21,787	\$ 77,267
Total Assets	<u>973</u>	<u>45,995</u>	<u>8,512</u>	<u>21,787</u>	<u>77,267</u>
FUND BALANCES					
Reserved For:					
Encumbrances	774				774
Unreserved:					
Special Revenue Funds	<u>199</u>	<u>45,995</u>	<u>8,512</u>	<u>21,787</u>	<u>76,493</u>
Total Fund Balances	<u>\$ 973</u>	<u>\$ 45,995</u>	<u>\$ 8,512</u>	<u>\$ 21,787</u>	<u>\$ 77,267</u>

The accompanying notes are an integral part of the financial statements.

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LAWRENCE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

LAWRENCE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	Jail Fund	Forestry Fund	Sewer Fund	911 Fund	Total Non-Major Governmental Funds
REVENUES					
Taxes	\$	\$ 5,398	\$	\$ 145,291	\$ 150,689
Intergovernmental	86,569			107,406	193,975
Charges For Services			89,116		89,116
Miscellaneous				25	25
Interest	56	304	63	70	493
Total Revenues	86,625	5,702	89,179	252,792	434,298
EXPENDITURES					
Protection to Persons and Property	393,763	4,296		213,426	611,485
Debt Service			53,257		53,257
Capital Projects			31,846		31,846
Administration	23,580			56,579	80,159
Total Expenditures	417,343	4,296	85,103	270,005	776,747
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(330,718)	1,406	4,076	(17,213)	(342,449)
OTHER FINANCING SOURCES (USES)					
Transfers From Other Funds	330,700		4,000	21,600	356,300
Transfers To Other Funds			(4,000)		(4,000)
Total Other Financing Sources (Uses)	330,700			21,600	352,300
Net Change in Fund Balances	(18)	1,406	4,076	4,387	9,851
Fund Balances - Beginning	991	44,589	4,436	17,400	67,416
Fund Balances - Ending	\$ 973	\$ 45,995	\$ 8,512	\$ 21,787	\$ 77,267

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable David Compton, Former Lawrence County Judge/Executive
Honorable John Osborne, Lawrence County Judge/Executive
Members of the Lawrence County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of Lawrence County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated May 9, 2011. Lawrence County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lawrence County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lawrence County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lawrence County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lawrence County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The former Lawrence County Judge/Executive's response to the finding identified in our audit is included in the comment and recommendation. We did not audit the former County Judge/Executive's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 9, 2011

**LAWRENCE COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2010

LAWRENCE COUNTY
COMMENT AND RECOMMENDATION

Fiscal Year Ended June 30, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS

2010-01 The Fiscal Court Should Improve Internal Control Procedures

As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts collections and processing, disbursements processing, and bank reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

The County Treasurer prepares the receipts, posts to the ledger and performs the bank reconciliations. The County Treasurer also prepares a listing of bills for fiscal court approval, prints the checks and posts checks to the ledger.

To adequately protect employees in the normal course of their assigned functions and to protect the fiscal court against possible inaccurate financial reporting, we recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, and reconciling bank accounts. If any of these duties cannot be segregated due to a limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this by initialing the appropriate reports.

Former County Judge/Executive David Compton's Response: We are implementing compensating controls.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

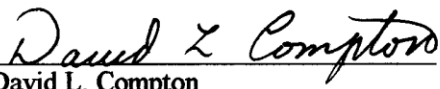
LAWRENCE COUNTY FISCAL COURT


**For The Fiscal Year Ended
June 30, 2010**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LAWRENCE COUNTY FISCAL COURT

June 30, 2010

The Lawrence County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as indicated by the applicable Kentucky Revised Statutes.


David L. Compton
County Judge/Executive


Sabrina M. Cantrell
County Treasurer

